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Agricultural Situation

Progress of the National Priority Project in Agriculture

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Report Highlights:

This report provides a status report on implementation of the National Priority Project in Agriculture announced in late 2005 (see GAIN RS-5086). Russian officials report that the long-term decline in livestock numbers is slowing down or has already stopped, and that dairy herd averages are beginning a dramatic rise due to improvement through imported genetics. Over two thousand new agricultural cooperatives have been created, and a near-doubling of private investment in agriculture in 2006 is attributed in part to availability of interest-rate subsidies.

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Progress of Project Implementation

The following text is an unofficial translation of a report on progress of implementation of the National Priority Project for the Agroindustrial Complex extracted from the Ministry of Agriculture's annual report on the agricultural sector for 2006. That report in its entirety can be found in the original Russian on the Ministry of Agriculture's website at http://www.mcx.ru/dep_doc.html?he_id=797&doc_id=11041. Additional materials in the Russian language on the progress of implementation of the National Priority Projects can be found on the official website for these projects at <http://rost.ru>. A description of the National Priority Project and its two-year budget is contained in GAIN Report RS-5086.

BEGIN TEXT:

"Accelerated Livestock Development"

To achieve the goals set for accelerated livestock development, 1,400 livestock facilities were included in the list for construction, renovation and modernization of livestock complexes. In 2006 1,195 participants in the Project received credit resources in the amount of 53.2 billion rubles.¹

To raise the genetic potential of livestock and to improve their housing conditions the Project envisions purchase of modern equipment and brood livestock through leasing. OAO "Rosagroleasing" bought 50.2 thousand head of cattle, 6.6 thousand head of swine and 48.1 thousand head of sheep valued at 3.0 billion rubles, as well as equipment for livestock production and processing worth 1.0 billion rubles, which permitted modernization of facilities for 78.7 thousand head of cow-equivalent animals. In the framework of Project implementation the most efficient sectors from the standpoint of investment are broiler production and commercial hog production, inasmuch as these "rapidly maturing" sectors return high output per unit of feed, which provides high additionality of meat resources.

In 2005 and the first half of 2006 economic conditions for development of swine production turned out well, in the main. With an average cost of production of 35-40 rubles, the sale price of swine was from 51 to 53 rubles per kilogram live weight, and the profit margin was 18-20 percent. This ratio influenced the sector's development, caused a change in the investment climate in pork production and evoked active construction of new and renovation of existing commercial complexes. Just within the framework of the Project 144 new hog complexes are planned to be built. Many of these projects are being carried out not only by external investors, but also with active use of regional² resources.

In the last few years investment activity has grown in the nation's poultry production. For the period 2002-2006 poultry production enterprises have used long-term loans to replace equipment amounting to more than 26 billion rubles, of which 20 billion through the Project, and short-term loans to expand turnover funds of 16 billion rubles. Annual private investment in poultry production is estimated at 200-250 million dollars. This all permits introduction of modern technologies and stable raising of poultry product volumes produced.

Measures to provide predictability in the government customs tariff policy with regard to regulating imports of meat and equipment for the livestock sector are envisioned. By Decree of the Government of the Russian Federation of November 27, 2006, No. 718 "On the Customs Tariff of the Russian Federation and Commodity Nomenclature Used for Foreign Economic Activity" duty-free import of particular types of modern equipment for livestock

¹ \$1.00 = 26.5 RUR

² "Regional" in this case means "provincial", i.e., refers to the "subjects of the Federation" (*krais*, *oblasts*, titular republics, etc.)

production and processing of livestock products, which have no equivalents produced by domestic industry, envisioned by Decree of the Government of the Russian Federation of March 24, 2006, No. 168, was extended to June 30, 2007, inclusive.

One should note that based on results of implementation of measures of the Project in 2006, positive movements in the livestock sector took place. Production of livestock and poultry for slaughter in live weight in all categories of farms was 4.6% higher than in 2005. In 56 regions overall volumes of production for livestock and poultry slaughter rose. The decline in milk production was halted in 2006. Dairy yields rose in practically all subjects of the Russian Federation. Rates of decline in cattle numbers slowed, and inventories of other livestock species grew.

As of 2007 the Project includes additional measures of government support for sheep-, reindeer-, free-range horse production and commercial aquaculture, as well as expansion of availability of credit resources for acquisition of brood livestock, equipment and machinery for service and development of livestock production (loans of up to 5 years term).

“Stimulation of Development of Small Agroindustrial Business”

Implementation of the “Stimulation of Development of Small Agroindustrial Business” portion noticeably activated development of small-scale commodity producers. In 2006 compared to 2005 the volumes of credit grew by an order of magnitude. At present the volume of credit is more than 40.0 billion rubles, of which about 55% consists of loans issued to individuals engaged in private subsidiary agriculture, 32% loans to peasant farmers, and the rest to agricultural consumer cooperatives.

About 200 commercial banks participate in Project implementation. However, as before the main creditors of the agroindustrial complex are OAO “Rosselkhozbank”³ and OAO AK “Sberbank Rossii”.⁴ The charter capital of OAO “Rosselkhozbank” was increased out of resources from the federal budget by 9.4 billion rubles. OAO “Rosselkhozbank” is the most significant creditor in the area of implementing the national project for stimulating small businesses. The share of the bank in the overall volume of loans to peasant farmers, private plots and cooperatives is 65%. Significant work has been done in development the branch network of the bank, which is planned to be continued in 2007.

Based on current information from subjects of the Russian Federation, in 2006 more than 2,000 agricultural consumer cooperatives were created. Implementation of pilot projects for land mortgaging of agricultural producers using agricultural land parcels as collateral was started. In 2006 loans using agricultural land as collateral were issued totalling 2.1 billion rubles.

“Provision of Affordable Housing to Young Rural Specialists (or Their Families)”

In 2006, 79 subjects of the Russian Federation participated in activities under the priority area of “Provision of Affordable Housing to Young Rural Specialists (or Their Families)”. A total of 6.86 billion rubles was used, or 100% of resources allocated, including full utilization of federal budget resources of 2 billion rubles.

³ The Russian Agricultural Bank, a government-owned bank devoted specifically to financing of agriculture and agribusiness. <http://www.rshb.ru>

⁴ The Russian Savings Bank, a government-owned bank originally created as a consumer savings bank, with a large branch network in rural areas. <http://www.sbrf.ru/>

Based on current information of subjects of the Russian Federation, as of January 12, 2007, 713.8 thousand square meters of housing for 12.3 thousand young families and young specialists had been put into use (acquired).

END TEXT.

Impact on Investment and Credit

According to Minister of Agriculture Aleksey Gordeyev in public remarks on February 14, total investment during 2006 in the agroindustrial complex (including production agriculture, processing and food manufacturing, and aquaculture) was 160 billion rubles, up 55% over the 2005 level. Gordeyev noted that modern, innovative technologies acquired from abroad are helping resolve both economic and social problems in Russia's rural areas, by raising productivity and thus profitability and incomes. Gordeyev predicted that in 2007 sales of agricultural machinery would be up by 10 to 15 percent, mainly of domestic origin, but he added that sales of foreign machinery are rising due to higher quality and decisions of some foreign manufacturers to "produce" equipment in Russia, which makes it more affordable.

Expansion of credit to farmers and private plot holders exceeded expectations. In 2006, facilitated by interest-rate rebates, 8,500 peasant farmers took out production and investment loans valued at 14.6 billion rubles, equal to 35.6% of all lending to agricultural producers, which was 31 times greater than the year-previous level. Yelena Fastova, Director of the Finance and Accounting Department of the Ministry of Agriculture, told the annual meeting of the Russian farmers' association this month she hopes to see over 30 billion rubles of loans to peasant farmers in 2007. Dmitry Toropov, Director of Agrarian Policy and Rural Development at the ministry, reported that a pilot project of farm mortgages got underway, issuing 70 mortgages to agricultural producers in 2006, of whom 30 were peasant farmers.

Impact on Livestock Sector

In addition to growth in output of pork and poultry meat, Minister Gordeyev told reporters February 12 the continued decline in dairy cow numbers had been counterbalanced by rising milk yields. Gordeyev said in 2006 the national herd average had risen to 3600 kilograms per cow, up 10% over the year prior, and said Russia should aim for a national herd average of 5,000 to 5,500 per year. Gordeyev said the best way to do that is through use of world-class genetics, mainly through acquisition of proven sires, not heifers, and to use "modern biotechnological methods in livestock breeding."⁵ Gordeyev noted that the rate of decline of the national cattle herd had slowed by a factor of two and a half, and predicted that as of January 1, 2008, statistics would show that the decline had stopped.

Impact on Cooperative Development

The National Priority Project called for creation of 2,500 rural cooperatives in 2006 and 2007; by the end of 2006 2,134 had been created, of which 775 were credit cooperatives. Of the credit cooperatives, 53% reportedly were actually in operation, with turnover and loans out, while the remainder were still getting underway.

⁵ Russian officials often lump embryo transplantation together with molecular biology and call these two disparate branches of biology "biotechnology". Presumably Minister Gordeyev here is referring to embryo transplantation.

Winners and Losers

Preliminary data of the Ministry of Agriculture published February 8 indicate that implementation of the National Priority Project is unevenly distributed across Russia, with some provinces taking advantage of available funding and others lagging behind. These preliminary data will be updated and refined on March 1.

Small Agribusiness

Based on numbers of private plots, peasant farmers, members of cooperatives, and loan volumes both issued and made eligible for subsidies, the regional leaders in support of small agribusiness development are the republics of Chuvashia, Mordovia, Kalmykia, Sakha (Yakutia), Buryatia, and Tuva, as well as Tyumen, Penza and Rostov *oblasts*.

Lagging behind are Bryansk, Vladimir, Sverdlovsk, Tver, and Smolensk *oblasts*, among others.

Livestock Development

On January 30, the Ministry of Agriculture published partial data on 2006 implementation by province of the effort to accelerate livestock development. The top ten, listed with a percentage indicator of growth over the 2005 level of meat output, are:

- Belgorod oblast (up 34% over 2005)
- Lipetsk oblast (18)
- Penza oblast (15)
- Orenburg oblast (11)
- Komi Republic (10)
- Bryansk (10)
- Adygeya Republic (10)
- Moscow oblast (9)
- Krasnodar kray (7)
- Tomsk oblast (7)

Leaders in growth of milk production in 2006 were:

- Karachayevo-Cherkessiya (up 22% over 2005)
- Chelyabinsk oblast (7)
- Chuvashia (6)
- Saratov oblast (5)
- Vladimir oblast (5)
- Ingushetia (5)
- Kalmykia (5)
- Chita oblast (5)
- Udmurtia (4)
- Sverdlovsk (4)

Comments

Meat

The rapid increase in meat production in Belgorod and Lipetsk oblasts is attributable to expansion of commercial pork and broiler production underway for the past two to three years. In 2006, Belgorod's meat production in live weight was indeed up by 34%, to

394,100 metric tons, and Lipetsk was up 18% in live weight, to 124,700 metric tons. These figures compare quite favorably to the average across Russia for 2006 of an increase in meat output of 4.6% to 7.9 million tons live weight.

While the National Priority Project could well be stimulating additional pork and poultry production in Belgorod, Lipetsk, Penza and other provinces, in these cases it appears to be accelerating a trend that was already underway. Belgorod *oblast* was been seeking to expand livestock production since 2000, when Governor Yevgeniy Savchenko, a Ph.D. agricultural economist by training, began “encouraging” private firms in the mining and food processing industries to invest some of their profits in an effort to revive dying state and collective farms. Imposition of import quotas on meat in 2004 coupled with Governor Savchenko’s wholehearted political support accounts for much of the spectacular expansion of pork and poultry meat production that makes Belgorod *oblast* such a standout. The question on everyone’s mind is how sustainable these farms will be once this political support disappears.

The growth in Lipetsk and Penza oblasts is more directly related to economic criteria that make them a safer bet for long-term sustainability. The sources of growth are turn-key poultry operations and, more recently, confinement hog operations that have responded to imposition of meat import quotas by taking advantage of their natural advantages: dominant Black Earth soils, among Russia’s most fertile, meaning ready access to feed, and relatively advantageous proximity to Russia’s major consumer market for high-value products, Moscow.

Dairy

It is highly unlikely that the importation of 50 thousand head of dairy cows in 2006, and their addition to Russia’s existing national herd, were behind the claimed rise in the national herd average of some 10 percent. That number of new cows in a 9.2 million-head inventory is a drop in the proverbial milk bucket. It is more likely attributable to culling of submarginal producers on bankrupt farms and, conceivably, improvement in feeding practices.

Minister Gordeyev is on safe ground predicting that the national herd average can be increased to 5,000 to 5,500 kilograms per cow. Expert dairymen in Russia estimate the genetic potential of the current indigenous dairy herd is already five- to six thousand kilograms per year if the animals are properly nourished and cared for. While well below the world-class standards of eight- to nine thousand kilograms per lactation seen in the U.S., Japan, and Israel, this still leaves room for considerable growth in Russia’s per-cow productivity merely through introduction of better nutrition, herd health practices, and herd management.

One-third of domestic Russian milk is produced in 7 provinces,⁶ evidence that, in contrast to the Soviet policy of producing a little of everything everywhere, production of dairy products is gravitating to the milksheds of major population centers or areas with some sort of relative advantage in dairying.

One unmentioned impact of the project to improve livestock performance has been a scouring of western Europe of brood livestock. Over 20,000 head of cattle were imported from the Netherlands alone in 2006, and supplies of quality pedigree bovines are so short now in Europe that they are being imported from Australia in lots of 3,000 to European Russia. Piglets for improving swine genetics are being airlifted from Canada to Europe, then trucked overland to Russia.

⁶ Moscow, Leningrad and Novosibirsk *oblasts*, Krasnodar and Altay *krais*, Tatarstan and Bashkortostan

Cooperatives and Small Rural Entrepreneurs

As noted in GAIN Report RS-7004, attention paid to peasant farmers and rural cooperatives is part of the Russian government's growing recognition that large-scale agricultural enterprises (whether "agroholdings" or some other form of ownership) are not a panacea for the ills afflicting rural Russia. Whereas two years ago it was not uncommon for agricultural leaders to declare that no more than 20 agroholdings were needed to feed Russia, today there is broad acknowledgement of the need to address widespread rural poverty, declining livestock numbers, and depopulation of swaths of Russian territory through support of small-scale farming and entrepreneurship.

Some of Russia's more cynical observers link this initiative to efforts by the United Russia political party to garner rural support in the runup to the 2008 Presidential election. Nonetheless it is undeniable that expansion of the existing base of rural cooperatives can and should both improve availability of credit and create badly needed marketing channels for small producers. In this latter regard, some Russian researchers regard creation of marketing channels for small-scale producers a far more critical need than access to credit.

The figures for expanded loans to peasant farmers, while impressive when viewed from the perspective of growth rate (up 31 times in one year), must also be viewed in the context of total need. Russia has over 200,000 officially registered peasant farmers, of whom only about 80,000 are actually still in operation.⁷ This means the 8,500 farmers who borrowed money under the National Priority Project amount to roughly 10 or 11 percent of the total. This disparity lies behind outbursts at this month's farmers' association conference to the effect that the National Priority Project notwithstanding, many farmers are still in difficult financial straits.

The "Winners and Losers"

The regional breakout of "winners and losers" in promoting small-scale agribusiness is revealing but not surprising. Bryansk, Vladimir, Sverdlovsk, Tver, and Smolensk *oblasts* lag in support of private farmers and cooperatives in part because there are very few private farmers to be found there. Bryansk, a "red-belt" province of Russia, has been politically inhospitable to private farming; Vladimir, Tver and Smolensk *oblasts* are in the northern non-Black Earth zone of European Russia, and their inherent productivity is not competitive with other, better endowed regions of Russia. They are also not far from Moscow and St. Petersburg, which offer alternative and often relatively more lucrative employment opportunities to the potential rural labor pool. Sverdlovsk *oblast*, in the Ural Mountains area, is relatively poor agroclimatically speaking, and features a large city, Yekaterinburg, that tends to compete with agriculture for labor. In all these areas functioning private farms are relatively scarce.

On the other hand, the "winners" win for varying reasons. Chuvashia, Mordovia, Kalmykia, Sakha (Yakutia), Buryatia, and Tuva are predominantly populated with national minorities known for keeping livestock as part of ethnic culture (the Yakuts, for instance, are traditional reindeer herders). This cultural influence has given rise over the past decade and a half to

⁷ Readers are reminded that agricultural producers in Russia are divided statistically and legally into three categories: large-scale corporate entities, known as "agricultural organizations"; officially registered private farmers subject to taxation, known as "peasant farmers"; and untaxed and unregistered "private subsidiary plot" owners. "Agricultural organizations" produce about 40 percent of Russia's domestic agricultural product, "peasant farmers" produce about 6 percent, and "private subsidiary plots" produce about 54 percent.

an unusually vibrant smallscale private livestock sector in those provinces. Chuvashia in particular has served as an academic case study of the impact of both ethnicity (its population is 68% Chuvash) and its governor's insistence on financing rural development to encourage the rural population not to migrate to cities.

The cases of Tyumen, Penza and Rostov *oblasts* are less clear-cut. Tyumen, an oil-rich province, has provided considerable direct support of agricultural producers for years, and this may well account for the existing base of small-scale producers. Tyumen *oblast* also features a significant ethnic Tatar population, about 8 percent of the total, which could account for some additional propensity for smallholding.

In Penza *oblast* private plot inventories of both cattle and swine have been on the rise since 1998 (counter to the national trend), which has likely generated demand for credit to expand production and fill a market niche. In 2006 banks in Penza *oblast* issued over 4,900 loans to smallholders worth a total of 581.5 million rubles. In addition, in that oblast 32 marketing and 29 credit cooperatives were founded in 2006. Penza *oblast*, though formally in the Volga economic zone, possesses Black Earth soils and enjoys better-than-average agroclimatic conditions. Aside from this, however, it has a significant minority population of ethnic Tatars, Mordovians and Chuvash, together about 12 percent of the total, and they have a disproportionate positive influence on the *oblast's* livestock holdings.

Rostov *oblast's* case reflects a different combination of cultural-ethnic issues. The Northern Caucasus economic zone, which includes Chechnya and Ingushetia, accounts for just over 30 percent of all of Russia's private peasant farmers and is thus fertile ground for a program to support small rural entrepreneurs. Rostov *oblast* is one of the two primary spillover provinces for families dislocated by ethnic conflict in the Caucasus region (the other is Stavropol kray). These refugees tend to engage in private agriculture, both crops and livestock. Another little-studied phenomenon that bears watching is the resurgence of the Don Cossack movement with its emphasis on small-scale agriculture as a Cossack's proper occupation.

In sum, the "winners" in the National Priority Project to expand small-scale agriculture appear generally to share certain attributes: significant, but not necessarily dominant, populations of ethnic minorities with a cultural proclivity to engage in small-scale agriculture, especially animal husbandry; and an absence or at least lower-than-average level of political hostility toward smallholders. The tendency of these ethnic groups to form tight communities may also account for the above-average willingness to form marketing and credit cooperatives.⁸

The "losers" have in common poorer agroclimatic conditions and additionally suffer from proximity to very large urban centers (Moscow, St. Petersburg and Yekaterinburg).⁹ This proximity gives rise to severe competition for labor resources due to the relative abundance of alternatives to farming as a source of income.

⁸ Resistance to cooperatives remains strong in much of rural Russia because the collective farms, though which Russia's peasantry was dispossessed of its property in the 1930s, are legally and organizationally cooperatives. Many rural Russians fear to this day that new cooperatives are promoted with the intent of renationalizing their property.

⁹ Moscow, Russia's largest metropolis, has a population of 12 million plus another 2 in the near suburbs. St. Petersburg, the second-largest city, and its suburbs together account for 5 million people. Yekaterinburg is the fourth-largest city and with its suburbs has a population of 2 million.